

PHILIP MORRIS COMPANIES INC. **INTER-OFFICE CORRESPONDENCE**
120 PARK AVENUE, NEW YORK, NY 10017-5592

To: John Tucker
From: Timothy A. Sompolaki
Subject: April 26, 1993 Meeting with Paul Douglas

Date: April 27, 1993

John, the following is intended to summarize our discussions with Paul Douglas relative to the Compensation Committee material:

• 1993 Revised Financial Goals

PM USA Annual Brn
Paul seriously questioned the recommendation to revise financial targets after the year was in progress. Changing what he considered "operational" objectives might be acceptable but he expressed great concern that once we set a financial goal, four months later changing that goal would be viewed as improper. During the course of the conversation, we advised Paul that we were going to be considering the senior executives responsible for the full year results and that middle management would be measured on revised goals alone for annual incentive purposes. Upon further discussion, Paul seemed to become more comfortable with the revision to the goals subject to the senior executive group judged responsible for the original financial targets and goals.

With respect to the Long Term Incentive Plan he was less concerned with the financial numbers presented given that this plan had been approved in design. Financial numbers would be established at the April Board meeting.

• Proposed 1993 Stock Option Guidelines

Paul's stated that management should be viewed in the same light as the shareholders. Therefore, giving the management group two times the normal stock option grant was in Paul's view inconsistent with treating management like shareholders. He said the shareholders experienced a loss in value and that he was concerned that giving the executives two times the normal stock option grant would be viewed as a reward to the senior executives.

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Paul further commented that stock options resulted in very "little glue." He indicated that in his view granting two times the standard stock option multiple was in effect trying to outguess the price of Philip Morris' stock. He was concerned that we might guess wrong.

Paul indicated that the top 200 executives should truly feel just like the shareholders. Paul stated that Philip Morris used competitive dollar value versus number of shares. Therefore, the present system would work just fine due to a lower stock price automatically producing a higher number of shares. He further expressed concern that the shareholders would view the proposed program as being out of step with our share repurchase program. In his view, we are buying back stock at \$70 per share price granting stock options at a \$50 per share price.

Paul stated that he was not aware of any signs of morale problems. He stated that in his view it really wasn't up to the Directors or the members of the Compensation Committee to be "aware" of employee morale and that morale was a management issue. He stated that it might be time for the Philip Morris executives and employees to truly understand that it was time to "buckle down for the hard pull."

Paul stated that all of the Board members truly understood the risks inherent to the pricing policies of the past. He stated that these pricing policies were consistent with corporate financial objectives.

Going back to his commentary regarding the stock options, he stated that the current program appeared to work when times were tough. He was more comfortable with leaving the program as an annual grant or consider something truly different such as using restricted stock to either a broad-based or a select group of executives.

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- 1992 Kraft General Foods Long Term Incentive Plan
Paul appeared to understand the issues relating to the Kraft General Foods 1990-1992 LTIP payments. He further went on to indicate that he was not of a mind to be technically limited by any plan documentation and that it was wiser to use judgment.

Paul went on further to state that he would like to hear Mike's views relative to the plan and to how Mike would want to handle the closure of the plan awards.

- Geoff Bible Merit Increase
Paul expressed concern regarding the aggressiveness (his view) of the increase for Geoff Bible. He indicated that based on discussions relative to Geoff's management style (authoritarian, prickly, etc.), he was not convinced that the right thing to do was to reward Geoff upfront to take the new assignment. He further said that he wasn't sure that it was necessary to have Geoff 11% ahead of the 75th percentile goal. However, he said that at the end of the day, the increase was not the major issue, he just had issues with Geoff.
- 1993 Annual Incentive Payments
Paul appeared to be comfortable with waiting until the end of the year when the final facts and figures are available and would not prejudge annual incentive payments. He stated that "somebody had to get less of an incentive payment in 1993 than they received in 1992." He did not appear to be uncomfortable with the fact that these decisions should be individually driven.

cc: Mike Miles

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